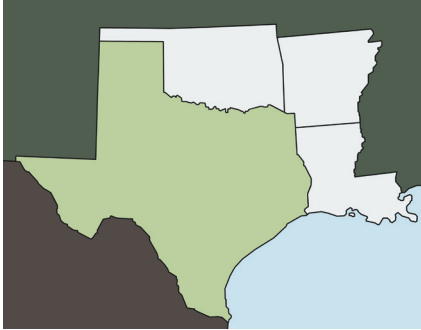


TEXAS Budget Report Card



ITS RAINY DAY FUND DEPOSITS of almost \$12 billion helped get Texas a top A average in reserve funds for fiscal 2017 through 2019. Yet the second-most-populous state managed only a D-minus average in legacy costs, the lowest mark possible, after appropriating less for public worker pensions and other postemployment benefits (OPEB) than actuaries recommended.

With annual contributions to the three pensions administered by the Employment Retirement System of Texas less than actuarially determined amounts, funding was 71 percent of estimated obligations in 2018. While that was 1 percentage point above the total for all states, it represents a decline from 2016, when the system was 73 percent funded. Texas also failed to follow actuarial recommendations for OPEB, which includes health care. In fiscal 2018, the state contributed only \$325 million, just 16 percent of the actuarial sum.

The state's A average in reserve funds reflects policies that track best practices cited by the Volcker Alliance in the recent working paper, *Rainy Day Fund Strategies, A Call to Action*. The dedication of the No. 1 crude oil-producing state to maintaining a healthy economic stabilization fund is rooted in a vigorous funding system linked to the volatility of its petroleum and natural gas revenues. This includes the deposit of a large portion of severance tax collections in years when they exceed 1987 levels. Additionally, Texas deposits half of any unencumbered general fund surplus into the stabilization fund at the end of each biennium.

Texas's improvement in multiyear expenditure and revenue estimating processes helped it earn a C average in budget forecasting. The state did not extend revenue or expenditure projections beyond its biennial budget in 2017 but began to do so the following year, when a legislatively mandated report provided expenditure and revenue forecasts for 2018–27.

WEST SOUTH CENTRAL STATES SIDE BY SIDE: Three-Year Average Grades, 2017–19


	BUDGET FORECASTING	BUDGET MANEUVERS	LEGACY COSTS	RESERVE FUNDS	TRANSPARENCY
Arkansas	D	B	C	C	C
Louisiana	B	C	D	A	B
Oklahoma	B	B	A	A	B
Texas	C	C	D-	A	B
US AVERAGE	B	B	C	B	B


NOTE States are grouped by US Census Bureau divisions.

Average grades are based on annual numerical scores. For more information, download *Truth and Integrity in State Budgeting: The Balancing Act* at VolckerAlliance.org.


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BUDGET FORECASTING				
	2017	2018	2019	
	CATEGORY GRADE	D	B	B
	Consensus Revenue Forecasts	X	X	X
	Multiyear Expenditure Forecasts	X	✓	✓
	Multiyear Revenue Forecasts	X	✓	✓
	Revenue Growth Projections	✓	✓	✓
3-YEAR AVERAGE C		3-YEAR TREND ↗		

BUDGET MANEUVERS				
	2017	2018	2019	
	CATEGORY GRADE	B	D	C
	Deferring Recurring Expenditures	✓	X	✓
	Revenue and Cost Shifting	X	X	X
	Funding Recurring Expenditures with Debt	✓	✓	✓
	Using Asset Sales and Upfront Revenues	✓	X	X
3-YEAR AVERAGE C		3-YEAR TREND ↘		

LEGACY COSTS				
	2017	2018	2019	
	CATEGORY GRADE	D	D	D
	Public Employee OPEB Funding	X	X	X
	Public Employee Pension Funding	X	X	X
	Public Employee Pension Funded Ratio*	76%	71%	71%
3-YEAR AVERAGE D		3-YEAR TREND —		

RESERVE FUNDS				
	2017	2018	2019	
	CATEGORY GRADE	A	A	A
	Positive Reserve or General Fund Balance	✓	✓	✓
	Reserve Funds Disbursement Policy	✓	✓	✓
	Reserve Funds Replenishment Policy	✓	✓	✓
	Reserves Tied to Revenue Volatility	✓	✓	✓
3-YEAR AVERAGE A		3-YEAR TREND —		

TRANSPARENCY				
	2017	2018	2019	
	CATEGORY GRADE	B	B	B
	Consolidated Budget Website	✓	✓	✓
	Provides Debt Tables	✓	✓	✓
	Discloses Deferred Infrastructure Replacement Costs	X	X	X
	Discloses Tax Expenditures	✓	✓	✓
3-YEAR AVERAGE B		3-YEAR TREND —		

KEY

✓	Followed best practice
X	Did not follow best practice

BUDGET FORECASTING evaluates whether and how states estimated long-term revenue and expenditure trends. **BUDGET MANEUVERS** evaluates whether states used one-time revenues, borrowings, asset sales, and other measures to achieve short-term budgetary balance. **LEGACY COSTS** evaluates whether states provided adequate funding, as defined by retirement system actuaries, for pensions and other promised retirement benefits for public workers. **RESERVE FUNDS** evaluates states' rainy day funds and other fiscal reserves, as well as any policies governing their use and replenishment. **TRANSPARENCY** evaluates the accessibility to the public of states' budget practices.

* **SOURCE** Bloomberg; 2018 data also used for 2019.

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